

FISCAL NOTE

SB 2398 - HB 2468

March 21, 2002

SUMMARY OF BILL:

Creates the Tax Reform Act of 2002.

- Exempts, effective January 1 2002, from state and local sales tax food and food products for human consumption.
- Maintains the 6% state sales tax rate on alcohol products, tobacco products, amusements, hotels and motels, rental of motor vehicles for 31 days or less, and items sold in professional sports venues.
- Decreases the state sales tax from 6% to 5.5%, effective January 1, 2002.
- Modifies the apportionment formula for state-shared sales tax outlined in TCA 67-6-103, effective January 1, 2002. Eliminates state-shared sales tax with local governments and premiere type tourist resorts.

Creates the Tennessee Income Tax Law of 2002.

- Imposes a graduated income tax between 2% and 4% based on Tennessee Adjusted Gross Income.

- Exemption Levels on which no state income tax is assessed are as follows:

Filing Status	Exemption Levels
Single or Married Filing Separate	\$15,000
Head of Household	\$15,000
Married Filing Jointly	\$30,000

Dependent Exemptions in addition to standard exemption amounts outlined above are as follows:

Single or Married Filing Separate	\$2,500
Head of Household	\$5,000
Married Filing Jointly	\$5,000
For each additional Dependent	\$2,500

- Exempts 50% of long-term capital gains from state income tax.
- Defines Tennessee Adjusted Gross Income for purposes of calculating state income tax due as Federal Adjusted Gross Income reduced by the exemptions based on filing status.
- Exempts from state income tax, any person exempt from federal income tax, but such person is not exempt from the reporting and withholding requirements of the income tax.
- Requires each employer, maintaining an office or transacting business within the state and making payment of any wages taxable under this part to a resident or non-resident individual, to deduct and withhold from such wages each payroll period a tax computed in such manner as to result, in withholding from the employee's wages during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee with respect to the amount of such wages during the calendar year.

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- Requires each employer, no later than 15 days after becoming subject to withholding provisions for income tax purposes, to register with the Department of Revenue by completing and filing a registration information form prescribed by the Commissioner of Revenue.
- Authorizes the commissioner of Revenue to enter into an agreement with the United States Secretary of the Treasury, and the tax officers of other states to implement the income tax and withholding provisions of the bill.
- Provides a credit against the income tax liability for any individual who has paid the Occupational Privilege Tax imposed by TCA Title 67, Chapter 4, Part 17.
- Requires, no later than 30 days after the effective date of the act, each employer maintaining an office or transacting business within this state and making payment of wages to a resident or non-resident individual to register with the Department of Revenue by completing and filing a registration information form prescribed by the Commissioner of Revenue.
- Authorizes any person required to register for withholding to bring an action for declaratory judgment, in the Chancery Court of Davidson County, concerning the constitutionality or validity of the income tax. Any appeal of such action must be taken directly to the Supreme Court.

ESTIMATED FISCAL IMPACT:

**Increase State Revenues - Net Impact - \$901,456,000 FY 02-03
Net Impact - \$980,813,000 FY 03-04**

Decrease State Revenues - Net Impact - \$342,208,000 FY 01-02*

**Increase State Expenditures - Exceeds \$30,000,000 Recurring
Exceeds \$25,000,000 One-Time**

**Decrease Local Govt. Revenues - \$181,130,518 FY 01-02
\$373,464,986 FY 02-03
\$384,728,690 FY 03-04**

***Other Fiscal Impact - As written, passage of the bill would result in taxpayers becoming eligible for a refund for sales tax paid on food and food products for human consumption from January 1, 2002 through June 30, 2002 since the effective date for this exemption is January 1, 2002 according to the language of the bill.**

Decreased local government revenues is the result of eliminating food and food products for human consumption from state and local sales taxes and eliminating state shared taxes effective January 1, 2002.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



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James A. Davenport, Executive Director

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